

THE VALUE OF A DOLLAR

States Promote Financial Literacy

State treasurers across the nation are using their positions to help improve financial literacy. Thirty-five state treasurers implemented some kind of financial literacy program—varying widely in scope and intended audience.

By Kevin Johnson

The financial crisis many Americans are facing is also taking a toll on state governments across the country.

“Government is dependent on the prosperity of its citizens,” said Arizona State Treasurer Dean Martin.

That’s one reason Martin, along with other state treasurers, is taking action. They see the lack of personal finance education as part of the reason the United States is facing the current economic downturn.

They’re not alone.

U.S. Rep. Barney Frank, chairman of the House Financial Services Committee, recently said, “We are in a financial downturn in our economy in which a lack of financial literacy is a contributing factor.”

Evidence of the lack of financial literacy is found on many fronts, ranging from easy access to credit to a decrease in personal savings to a poorly informed borrowing public. Consider:

- College students regularly rack up debt without fully understanding the impact of their actions down the road.
- The personal savings rate of Americans last year dropped to 0.4 percent of income, according to U.S. Commerce Department figures.
- Some homeowners don’t understand their mortgages. The Federal Trade Commission in June 2007 found that half of all homeowners could not cite the total loan amount on their mortgage, and 32 percent didn’t know their interest rate.

Building Networks

But in most cases, state resources alone are insufficient to solve those problems—often stemming from a lack of financial education. As a result, state treasurers are developing partnerships with government, business and nonprofit groups to promote financial literacy.

Financial Football, an interactive game that teaches money management concepts, is an example of such a partnership. The program was launched in 2005 by Visa USA and the National Football League, and 16 state treasurers

across the country have incorporated Financial Football into their financial literacy efforts.

The rules of the game are based on the NFL and students advance down the field to score a touchdown or field goal by correctly answering questions on personal finance topics. On each play, students choose whether to see an easy question that moves the ball a few yards or a harder one that leads to 10 yards or more. When two students play together, there are also defensive opportunities.

Teachers can download lesson plans to supplement the online game and incorporate them into the classroom.

Many state treasurers see Financial Football as a way to improve education about personal finance without additional state funds.

“Financial firms can be partners in this effort,” said Martin from Arizona. He emphasized lenders also depend on the economic welfare of individuals. “They want people to make good on their loans.”

This common interest in a better-informed public has led to a number of alliances. For instance, Pennsylvania State Treasurer Robin Wiessmann collaborated with local credit unions to create an alternative to payday loans.

Her office found that 90 percent of payday transactions in 2005 went to borrowers with five or more loans per year. The typical payday borrower takes out nine loans per year and ends up spending hundreds of dollars in fees and interest.

Seeing the detrimental effects of these ubiquitous loans on cash-strapped families, Wiessmann sought a way to help people break out of the cycle of borrowing against their paychecks.

Wiessmann and Pennsylvania credit unions developed the Better Choice loan program, which offers lower fees and longer repayment periods than typical payday loans. It also provides borrowers with financial counseling to help them make better decisions with their money.

She said in 2007 the program saved borrowers an estimated \$2 million in interest and fees. “By making the Better Choice, consumers are not only receiving the short-term loan they need, but

are also making an investment in their financial future, through the program’s savings and fiscal literacy components,” said Wiessmann.

Thirty-five treasurers implemented some kind of financial literacy program. While the initiatives vary widely in their scope and intended audience, they all build on the credibility of treasurers as the chief financial officers of the states. Many resources, such as school curricula, have been developed to help increase financial literacy across the country. The challenge now is to get that information into people’s hands, and elected officials can use their positions to help meet that goal.

Education for All Ages

Several state and federal officials cite the fact that so many people end up in fiscal distress and use that to call for better economics education in elementary, middle and high schools.

“In light of the problems that have arisen in the subprime mortgage market, we are reminded of how critically important it is for individuals to become financially literate at an early age so that they are better prepared to make decisions and navigate an increasingly complex financial marketplace,” Federal Reserve Chairman Ben Bernanke said in April.

Recognizing that need, states have significantly increased efforts to teach personal finance in kindergarten through 12th grade over the last decade.

According to a June 2007 survey by the National Council on Economic Education, 40 states now have content standards for personal finance, up from 21 states in 1998. Twenty-eight states require implementation of these standards.

Martin of Arizona believes responsible spending and savings habits should be integrated into current school curricula to help students understand these concepts.

“Teach students to balance a checkbook during math class or work economics into a world history course,” said Martin. “Integration provides context. You’re looking for opportunities to capture students’ imagination.”

States offer a number of programs to help schools get children interested in saving money. Illinois and West Virginia, for example, run Bank at School programs. Teachers using that program can order or download classroom materials appropriate for third through sixth graders. The state treasurers' offices also help schools find community banking partners who visit classrooms and help students set up their own savings accounts.

The need for better education goes beyond school-age children. A shortage of money management skills has led people of all ages and backgrounds into hardships for which prevention is much more effective than treatment.

Ohio Treasurer Richard Cordray is reaching out to Ohioans, many of whom are struggling with difficult economic conditions.

"We believe that people get very little guidance about how to make important financial decisions and that greater awareness and understanding of their options would have averted some of the worst of the mortgage foreclosure problems we now face in Ohio," said Cordray.

His office launched the Web site *YourMoneyNOWOnline.org* to provide easy access to a wide array of information on savings, mortgage issues, consumer fraud alerts and long-term financial planning.

He also is working with members of the legislature to start SaveNOW, a program to educate people about personal finance while helping them save money and earn interest.

"Over the last three years, our personal savings rate in the United States has approached zero, reaching the lowest levels that we have seen since the Great Depression," Cordray said. "This signals that many families are living paycheck to paycheck, and this leaves people in a very precarious position. It also means that a great many

people have little or no control over their financial future—no cushion, no money for a rainy day, no emergency fund."

The SaveNOW program is based on the linked deposit framework already used in the treasurer's office to assist agriculture and small businesses. A state treasury operates a linked deposit program by investing funds with local financial institutions in the form of certificates of deposit. The state agrees to earn a reduced interest rate on its investment and the financial institution passes this savings on to customers such as small businesses or farmers.

In the case of the SaveNOW program, banks would use the savings to offer above market interest rates and encourage people to open savings accounts. Customers who open accounts would also agree to participate in a financial education program.

"We stress to Ohioans that having more know-how about how to handle our finances gives us more control over the choices that guide the trajectory of our lives," said Cordray.

—Kevin Johnson is communications director for the National Association of State Treasurers.

Resources on the Web

- The North Dakota state treasurer, in conjunction with the Bond Market Foundation, has created a personal finance Web site at northdakota.tomorrowsmoney.org
- For research and tips designed to encourage personal savings from the Employee Benefit Research Institute, visit choosetosave.org
- To access the U.S. government Web site dedicated to financial education visit mymoney.gov
- To access resources designed for school-age children and links to state coalitions, visit jumpstart.org
- Multilingual financial education materials from Consumer Action and Capital One can be found at money-wise.org



Ohio State Treasurer Richard Cordray, left, and Cleveland Browns quarterback Brady Quinn discussed the Ohio launch of Financial Football in September 2007. Photo courtesy of the Ohio State Treasurer's Office.